



Office of the
Inspector General

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

July 13, 2012

The Honorable Todd J. Zinser
Inspector General
U.S. Department of Commerce
Office of Inspector General
1401 Constitution Avenue N.W.
Washington, DC 20230

Subject: Quality Control System Review Report on the U.S. Department of Commerce's Office of Inspector General Audit Organization

Dear Mr. Zinser:

We have reviewed the system of quality control for the audit organization of the U.S. Department of Commerce (DOC) Office of Inspector General (OIG) in effect for the year ended September 30, 2011. A system of quality control encompasses the DOC OIG's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with *Government Auditing Standards*. The elements of quality control are described in *Government Auditing Standards*. The DOC OIG is responsible for designing a system of quality control and complying with it to provide the DOC OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the DOC OIG's compliance therewith based on our review.

Our review was conducted in accordance with *Government Auditing Standards* and guidelines established by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). During our review, we interviewed DOC OIG personnel and obtained an understanding of the nature of the DOC OIG audit organization, and the design of the DOC OIG's system of quality control sufficient to assess the risks implicit in its audit function. Based on our assessments, we selected engagements and administrative files to test for conformity with professional standards and compliance with the DOC OIG's system of quality control. The engagements selected represented a reasonable cross-section of the DOC OIG's audit organization, with emphasis on higher-risk engagements. Prior to concluding the review, we reassessed the adequacy of the scope of the peer review procedures. We decided to expand our review of audit reports on a limited scope in areas where we found weaknesses. At the conclusion of the review, we met with DOC OIG management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

In performing our review, we obtained an understanding of the system of quality control for the DOC OIG's audit organization. In addition, we tested compliance with the DOC OIG's quality control policies and procedures to the extent we considered appropriate. These tests covered the

application of the DOC OIG's policies and procedures on selected engagements. Our review was based on selected tests; therefore, it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it.

There are inherent limitations in the effectiveness of any system of quality control, and therefore noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

Enclosed is a statement of scope and methodology that identifies the offices of the DOC OIG that we visited and the engagements that we reviewed.

In our opinion, the system of quality control for the audit organization of the DOC OIG in effect for the year ended September 30, 2011, has been suitably designed and complied with to provide the DOC OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Federal audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. The DOC OIG has received a peer review rating of *pass*.

As is customary, we have issued a letter dated July 13, 2012 that sets forth findings that were not considered to be of sufficient significance to affect our opinion expressed in this report.

In addition to reviewing its system of quality control to ensure adherence with *Government Auditing Standards*, we applied certain limited procedures in accordance with guidance established by the CIGIE related to the DOC OIG's monitoring of engagements performed by Independent Public Accountants (IPA) under contract where the IPA served as the principal auditor. It should be noted that monitoring of engagements performed by IPAs is not an audit and therefore is not subject to the requirements of *Government Auditing Standards*. The purpose of our limited procedures was to determine whether the DOC OIG had controls to ensure IPAs performed contracted work in accordance with professional standards. However, our objective was not to express an opinion and accordingly, we do not express an opinion, on the DOC OIG's monitoring of work performed by IPAs.

Sincerely,



Patrick E. McFarland
Inspector General

Enclosure

SCOPE AND METHODOLOGY

Scope and Methodology

We tested compliance with the DOC OIG audit organization's system of quality control to the extent we considered appropriate. These tests included a review of 7 of 30 audit and attestation reports issued during the period October 1, 2010, through September 30, 2011, and semiannual reporting periods ending March 31, 2011 and September 30, 2011. Included in this sample were two reports on DOC OIG's monitoring of engagements performed by IPAs where the IPA served as the principal auditor during the period October 1, 2010, through September 30, 2011. During the period, the DOC OIG contracted for the audit of its agency's Fiscal Year 2009 and 2010 financial statements. We also reviewed the internal quality control reviews performed by Williams Adley, a certified public accounting and management consulting firm, which was contracted by the DOC OIG to perform quality assurance services.

In discussions with DOC OIG leadership, we learned that DOC OIG had recently implemented improved quality assurance controls. Therefore, we expanded our review to include two recently completed reports in order to confirm that the controls were effective. We limited the scope of these reviews to the areas where we found weaknesses in our original sample of reports. The additional reports were selected from the semiannual reporting period ending March 31, 2012.

We conducted our review at the DOC OIG headquarters office in Washington, D.C.

Reviewed Engagements Performed by the DOC OIG

<u>Report Number</u>	<u>Report Date</u>	<u>Report Title</u>
OIG-11-033-A	9/29/2011	Patent End-to-End Planning and Oversight Need to Be Strengthened to Reduce Development Risk
OIG-11-021-A	3/25/2011	Commerce Needs to Strengthen Its Improper Payment Practices and Reporting
OIG-11-001-A	10/7/2010	Second Annual Assessment of the Public Safety Interoperable Communications Grant Program
OIG-11-025-A	6/10/2011	Indirect Cost Plans and Rates Pacific States Marine Fisheries Commission
OIG-11-026-A	6/10/2011	NOAA Cooperative Agreements to the Pacific States Marine Fisheries Commission

Reviewed Monitoring Files of the DOC OIG for Contracted Engagements

<u>Report Number</u>	<u>Report Date</u>	<u>Report Title</u>
OIG-11-010-FS	11/12/2010	Department of Commerce's FY 2010 Consolidated Financial Statements
OIG-11-011-FS	11/15/2010	Department of Commerce's FY 2010 Special Purpose Financial Statements

Additional Reviewed Engagements Performed by the DOC OIG (Limited Scope)

<u>Report Number</u>	<u>Report Date</u>	<u>Report Title</u>
OIG-12-018-A	2/1/2012	The Patent Hoteling Program Is Succeeding as a Business Strategy
OIG-12-002-A	10/21/2011	Improvements Are Needed for Effective Web Security Management